ED 238 [illegible]

AUTHOR Makey, Phyllis [illegible] And Others
TITLE The Credit Business. Instructor's Guide and Materials. Business [illegible] Classroom Revised.
INSTITUTION Consult[illegible] Credit Education [illegible] Area Calif.
PUB DATE 83
NOTE 58p.; For revised document [illegible]
AVAILABLE FROM Constitutional Rights Foundation, 1510 Cotner Ave, Los Angeles, CA 90025 ($4.95).
PUB TYPE Guides - Classroom Use - Materials (For Learners) (051) -- Guides - Classroom Use - Teachers (052)

EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS *Business; Business Responsibility; Case Studies; *Consumer Education; Consumer Protection; *Credit; Finance; Economics Education; Eligibility; Financial Aid Applicants; Financial Needs; *Financial Services; Instructional Materials; Learning Activities; Loan Repayment; Money Management; Secondary Education; Units of Study
IDENTIFIERS *Business and Society; Credit Cards; Credit Ratings

ABSTRACT

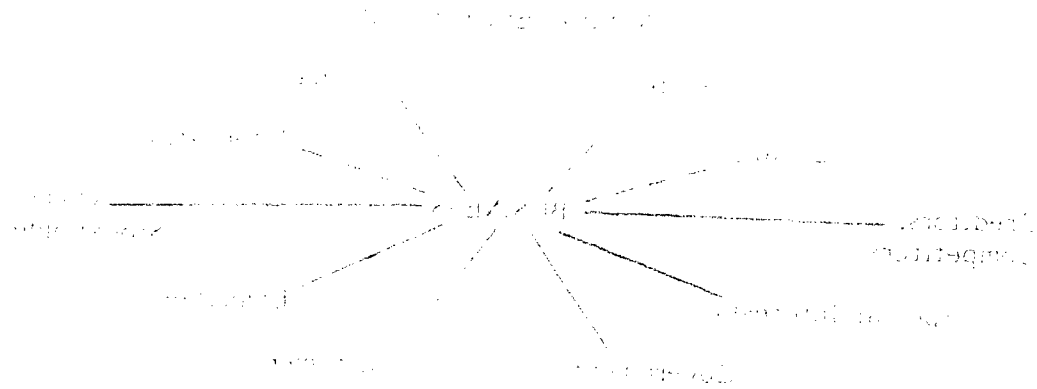
One of a series of units on business issues [illegible] for secondary school students, this packet examines the responsibilities of the lender and consumer in the credit business. Teacher and student materials are provided in separate sections. The teacher's guide presents five detailed lesson plans, each focusing on a credit case study; discussion guides; recommended follow-up activities; answer keys; and suggestions for using a business person as a classroom resource. The student materials contain student reading handouts for the following case studies: first auto loan; student credit card application, an inaccurate credit file, an investigative report, repossession, and a consumer credit counselor's help in getting a family out of debt. Also included are a reading which presents three important laws that affect credit practices and a vocabulary worksheet to help students review new terms used in the unit. (LP)

Author: Phyllis F. Maxey
Business Issues in the Classroom
Constitutional Rights Foundation
Los Angeles, California
Revised, 1983

THE CREDIT BUSINESS

OVERVIEW

Nowadays [illegible] identify, and compare the [illegible] rights and activities [illegible] companies must increase. This business can include [illegible] including interest stockholders, contractors, employees, [illegible] the news, competitors and creditors, and government. These [illegible] business and, in turn, are affected by [illegible] looking on a specific issue which [illegible] companies to conform-making [illegible].



THE BUSINESS AND WHAT MAKES [illegible]

This lesson [illegible] consumer in the [illegible] business. They meet several [illegible] their first [illegible] learn what criteria lenders use [illegible] consumer a family burdened with too many debts, [illegible] monthly payments. The cases raise the issue of privacy [illegible] information does the lender really need to know in [illegible] an "ideal" laws that have been established to [illegible] lender has the credit information [illegible] lender for everyone are presented.

Sam explained to her that he lived at home with his parents, that he [illegible] have to pay for rent or food. He worked part time as a waiter, making [illegible] a month, and he had $1,000 in his savings account. The monthly payments [illegible] a $3,000 loan at 16 1/2% interest would be $106. Sam said, "I think I can [illegible] to make the payments."

Ms. Larson said, "We also need to know whether you carry collision [illegible], and what kind of car you want to buy. Young people who own sports [illegible], for example, can be charged about $2,000 per year for insurance. We [illegible] average young people to buy other types of cars. Because you have no credit [illegible]," she continued, "you may be required to have your parents co-sign your [illegible] agreement as guarantors. A guarantor promises the bank or auto dealer to [illegible] financial responsibility and make the payments if the borrower neglects [illegible]."

Sam said, "Well, I want to buy a 1972 sports car. I need a loan for $3,000. [illegible] give me the loan?"

[illegible] Questions

[illegible] If you were a bank loan officer, would you give Sam a loan? Why or why [illegible]?

[illegible] the auto dealer, would you give Sam a loan? Why or why not?

[illegible] the sports car?

[illegible] a guarantor? What does it mean to have a co-signer for a loan?

[illegible] of these items are important to a bank loan officer? Are they [illegible]

[illegible]
[illegible]
[illegible]
[illegible]
[illegible] of time at present job
[illegible] references
[illegible]ional background
[illegible] of years at present address
[illegible] other financial public record [illegible]

Race
Personal friends
Age
Credit history
Neighborhood and address
Character references
Purpose of the loan

Case 2: Student VISA Cards

"I've heard that all you have to do is be a sophomore in college to get one," Sonia said as she and her friend Sharon walked through the big glass doors into the bank.

"I hope so," Sharon said, "because I'd really like to have a VISA credit card. It's so much easier to buy clothes with a credit card than by writing a check."

They crossed the huge marble floor and sat down at the desk with a sign reading "Credit Loans -- Mrs. Lieberman."

"What can I do for you?" she asked.

"We're both students and we want to apply for VISA cards," Sonia said, glancing nervously around the desk.

"Fine. Let me give you an information sheet and instructions for applying for a student VISA card." She handed them a paper which read:

1. Full-time student (at least a sophomore in a two- or four-year university).
2. Supply current college/university registration card.
3. $150 qualifying income over and above expenses, including rent.
4. Must have a letter verifying financial support from parents and/or a copy of scholarship or grant award letter.
5. Written certification from any and all employers confirming employment dates and monthly salary.
6. When all information is obtained, a personal interview must be arranged with a bank officer.
7. Your application will not be processed unless all of the above conditions have been fulfilled. Incomplete applications will be held at our office.

Sonia said, "Right! I have my application! I think I meet all of the requirements."

"Well, I don't get a student card," Sharon complained to Sonia. "I'm a sophomore, too! I'm also a part-time student."

Mrs. Lieberman turned to Sharon and asked, "Do you have a full-time job?"

Sharon replied, "Yes, I do. I work full-time as a receptionist for an orthodontist. How can I qualify?"

"If you earn $500 over and above major expenses, such as rent and loan payments; if you have worked at one place for six months or more; if you have lived in the area for a year or more; and if you have a good credit record, you probably can get a credit card," Mrs. Lieberman said.

"Well, let's see," Sharon thought for a moment. "I make $850 a month, but I live at home. So, my only expense is my $190 car payment. I qualify there. I have worked for Dr. Eastland for a year and a half, and we moved here four years ago. But as for credit history, I don't have any credit."

"Don't worry. You have an income and a history of car payments. That's important. Why don't you fill out the form, and I'll see how Sonia is doing on her student application." Mrs. Lieberman handed Sharon a form and turned to Sonia.

"I can fill out almost everything, but do I need notes from my employer and my parents?" Sonia asked.

"Yes," Mrs. Lieberman answered. "Like the information sheet says, we need information on all of your income. If your parents give you money for school and rent, we need a note from them saying how much they give you. If you also have a scholarship from school, we need to know that, too."

"Well, then I guess I won't be able to fill this out and turn it in today." Sonia put her pen down. "I'll have to get some notes first, and then I'll drop it off later."

Two months later, both Sharon and Sonia found out they would receive their VISA cards. Sharon's credit limit was $500, and Sonia's was $200.

Discussion Questions

1. What is a credit history?
2. What is a credit limit? Why was Sonia's credit limit less that Sharon's?
3. Why do you think banks offer special VISA cards for college students?
4. What is privacy? Why is it an important value in American society?
5. Do you think that the information required by the bank for the VISA application invaded Sharon and Sonia's privacy?

Case 3: A Rejection

While shopping at Market Place one day, Karen Gomez was asked by a sales clerk if she wanted to apply for a Revolving Charge Card. Karen already had a few credit cards and she decided to get this one, since she shopped at Market Place often.

A month after turning in her application, Karen received this letter from Market Place:

Dear Ms. Gomez:

We regret to inform you that your application for a Market Place Revolving Charge Card has not been granted. Our decision was made on the basis of your poor credit history, as shown on your Confidential Credit Report.

Under the Fair Credit Reporting Act, you are entitled to see your credit record. If you so desire, please write to:

Confidential Credit Report
P.O. Box 200
San Francisco, CA 94120

If there are any discrepancies on this record which you think may have contributed to your poor credit record, please notify Credit Report. Then, do not hesitate to re-apply for credit with us.

Our credit decisions comply with the ECOA, as stated below:

"The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age (provided that the applicant has the capacity to enter in to a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission, Equal Credit Opportunity, Washington, D.C. 20580."

Sincerely,

Market Place Company

Karen immediately wrote for her Confidential Credit Report. She explained that she wanted to see her report because she had been turned down for credit. Three weeks later, her report arrived.

CONFIDENTIAL CREDIT REPORT

Karen Louise Gomez
6430 Loma Linda Circle
Loma Linda, CA 93362

Employer: Foothill Realty Co.
2035 Broadway
Loma Linda, CA 93362

Social Security Number: 123-45-678 Birthdate: August 6, 1956

Account	Date Opened	Balance Due	Days Overdue	Occurrences: 30 days Overdue
The Broadway	8/77	0	0	0
Master Charge	12/77	208.00	0	0
VISA	12/77	125.00	0	0
Loma Linda Auto Sales	5/78	380.00	90	3

Everything was correct except for one item. Karen was surprised to see that she was considered overdue three times at Loma Linda Auto Sales. She knew she had made all her payments on time. Karen called the manager there and asked what had happened.

Mr. Jackson at Loma Linda Auto Sales checked Karen's records and verified that she was 90 days overdue on her car payment, as shown on the computer system. However, the bank statements showed that she was paid up. Apparently, the accountant at Loma Linda had made an error and the computer had the wrong information. It is this computer report that goes to Confidential Credit Report every six months. Mr. Jackson assured Karen that he could inform the accountant of this error and change the information in her credit file.

A few months later, Karen wrote again to Confidential Credit Report for her file. They wrote her back, telling her that since she had not been turned down for credit in the past 30 days, she would have to send $4.00 for a copy of her report. Karen thought it was silly that she had to pay to see her own report, but she did so anyway. The file showed that the error had been corrected.

Discussion Questions

1. What is a credit report?
2. Why was Karen denied credit, what did she do about it?
3. Why do you think Karen was required to pay $4.00 to see her report?
4. Should any business be able to look at Karen's credit report, should private individuals be able to request her report?
5. What rules should govern credit bureaus and credit reports?
6. What causes an individual to have a bad credit record?

CREDIT LAWS

EQUAL CREDIT OPPORTUNITY ACT (ECOA)

Creditors must decide whether or not to loan money to each person who applies. The Equal Credit Opportunity Act sets out criteria that legally must be observed when deciding whether or not to grant credit.

Credit decisions must not be made on the basis of sex, marital status, race, national origin, religion, or age. The age exception is anyone under 18; a person younger than 18 is legally a "minor" and can be denied credit. Credit is a form of contract and a minor cannot legally be held responsible for fulfilling a contract. Creditors can ask you voluntarily to provide information about your sex, marital status, race, religion, or age, but they cannot require it. A creditor also may ask for proof of your income, but cannot deny credit on the basis of whether you receive Social Security or other public assistance, or whether you work part time, or receive money through a pension or alimony.

Creditors want proof of your credit history before they will issue you an account. In the past, this caused difficulty for married women who used credit under their husbands' names and then wanted to establish credit in their own names. The records showed only the name of the husband, who was the person holding the account. Married women thus appeared to have no credit history. With the passage of the ECOA in June, 1977, any credit report on a married couple has to show both the husband's and wife's names. Women have the legal right to carry credit in their own names, whether they are married, divorced, widowed, or separated.

Creditors now have applications that include both names when a husband and wife apply for credit together. Any creditor who gives information to a credit agency must list both names on an account carried by a husband and wife together. No one, man or woman, can be asked about plans for bearing or raising children when applying for credit.

When you apply for credit, you must be informed within 30 days whether or not your application has been accepted. If it is rejected, the creditor must give you specific reasons, or must tell you that you can request the reasons within 60 days.

If you are denied credit, the creditor must tell you the name and address of the appropriate government agency with which to file your complaint. The government agency cannot help you individually, but it can use your information when it decides which companies to investigate for law enforcement of the ECOA. In Los Angeles, you can send your complaints to: Los Angeles Regional Office, Federal Trade Commission, Equal Credit Opportunity, 11000 Wilshire Blvd., Room 13209, Los Angeles, CA 90024; or to the central office, Federal Trade Commission, Equal Credit Opportunity, Washington, D.C. 20580.

FAIR CREDIT BILLING ACT (FCBA)

If you have a credit card or a charge account, you receive a bill every month stating what amount you charged. These bills are printed out by computers, and sometimes have errors in them. If you are charged too much or too little on your bill, you can have it changed if you follow certain procedures. The procedures for disputing these credit accounts are set out in the Fair Credit Billing Act.

You must write a letter to your creditor within 60 days after the first wrong bill was sent to you. In your letter, include your name and account number, why you think the bill is wrong and the dollar amount. Your creditor must acknowledge your letter in writing within 30 days after receiving it. Within 90 days, the creditor must correct the billing mistake or investigate and explain why the bill is right. Meanwhile, you can refuse to pay the disputed amount.

If you still disagree after the investigation, you can write the creditor, within 10 days, saying you still refuse to pay. The creditor may begin collection procedures, but if he reports you as delinquent to a credit agency, he must also state that you don't believe you owe the money. He also must tell you who is receiving your credit report with this information. To report violations of this Act, write to the Federal Trade Commission, Fair Credit Billing, Washington, D.C. 20580.

FAIR CREDIT REPORTING ACT (FCRA)

Credit companies keep track of everyone who has borrowed from them. If you have a charge account, or if you hold life insurance or a mortgage, a list of all your payments will be kept by a Consumer Reporting Agency. This list, called a Consumer Report or Credit Report, will be used by credit agencies, insurance companies, and possible employers in judging whether or not to offer you credit, insurance, or a job.

Under the Fair Credit Reporting Act, you can learn what information is kept in your report, except for medical information. The creditor must provide you with the name and address of the reporting agency that has collected that information. If you have been denied credit, insurance, or a job, you can ask for this information free of charge within 30 days over the phone. The agency may give you the information, and may charge you for the cost of a written copy.

You have the right to know who has received your credit report within the last six months for credit, or within the last two years if for a job. You can request that wrong information be re-investigated and either changed or taken off your file, and you can have the changes sent to anyone who has requested your file. Your own version of the story, in 100 words, must be included in the file if you have a dispute with the reporting agency. Also, your file cannot be opened to anyone who doesn't have a legitimate business need to see it.

Your file may contain additional information about you. An investigative reporting agency may ask your acquaintances and neighbors about your character, your reputation, and your life style. This is an "Investigative Report" and you must be informed in writing that such an investigation is being undertaken by the agency. You have the right then to learn exactly what information, and what kind of information, the agency is seeking. After seven years, unfavorable information about you must be erased from your file, except for bankruptcies, which show up for 10 years.

PRIVACY COMMISSION RECOMMENDATIONS

The Privacy Protection Study Commission, created in 1974, studied threats to privacy in American society, and suggested 162 ways to protect that privacy. Some of the recommendations to creditors are:

- Collect only relevant data
- No lie detector tests for employment purposes
- Information should be accurate, complete, and up-to-date
- More face-to-face interviews of people, and less computer-to-computer talk
- Individuals should have the right to see, copy, and correct records
- No secret records
- Organizations should only use records in their possession for the purpose for which the were collected in the first place
- Old and out-dated records should be removed and destroyed when appropriate

Case 4: The Investigative Report

Mike O'Donnell applied for the position of Manager of Computer Systems at Buckley Investment Company. He went through two days of interviews. He learned about the company, and the company learned about Mike.

The job was an important position with great responsibility. Mike would be handling millions of dollars of money from pension funds. He would supervise 25 employees, but only he and a vice president would understand the entire computer operation.

Buckley Investment Company went to an investigative reporting agency to obtain a report on Mike O'Donnell's background. This was not just his credit background, but an "investigative report." Buckley Investment Company learned the following information about Mike:

Medical Records:	Heart murmur, heavy drinker.
Credit History:	Two late car payments, one delinquent charge account. Bonded.
Criminal Record:	Arrested for disorderly conduct, charges dropped.
Employment Record:	Present position: Clark Computer Corp., supervisor; 15 years with the company.
Driving Record:	Two speeding tickets in the last 11 years.
Character Assessment:	Two neighbors reported loud parties, but they liked Mike and his family. Marriage reported to be happy. Mike and his wife, Kathleen, have been married for 15 years and have three children. Three employees [illegible] Clark Computer praised Mike [illegible] dependable, [illegible] perceptive, [illegible] supervisor.

Discussion Questions

1. Do you think that the "Investigative Report" was helpful or damaging to Mike's chances of being hired by Buckley Investment Company?
2. Should a company try to find out the information in this report? Why or why not?
3. What is an investment company? Does an investment company have a special need for an Investigative Report?
4. What does it mean to be bonded?
5. Is there anything Mike can do if the report is wrong? What if it was true? Who disliked him lied about Mike's character?
6. Whose interests are more important in this case, the company's [illegible] in hiring a reliable, trustworthy supervisor, or Mike O'Donnell's interest in keeping his private life out of a company's hire?
7. What is the difference in content and use between a credit report and an investigative report?
8. Do you think investigative reports [illegible]

Case 3: Repossession

An Example of What Happens When You Don't Pay Your Bills

Dave Stewart was surprised at how much it cost to own a car. When he bought his car, he was earning enough money to cover the monthly payments, the gas, and the maintenance. However, he lost his job. He was left with just enough money to run the car, but none for the payments. So, he stopped paying for his car while he looked for another job. The first month, he ignored the bill. The second month, he threw the bill away. Then one day, he discovered his car missing. The repossessor had simply driven the car away.

Dave went to the dealer who had loaned him the money for the car. The dealer explained that the car had been repossessed, since Dave's car payments were two months behind. To get his car back, Dave would have to pay his monthly car bills up to date. That meant he owed three months' worth of payments.

"It could have been worse," the dealer said. "If you had wrapped your damaged the car, you would have to pay the full balance that you owed on it before you could get it back."

Dave couldn't pay all three monthly bills at once. His car was sold at a repossessors' auction. His troubles still were not over, since his car had been sold for less than the price he had originally agreed to pay for it. He now was responsible for paying the auto company the difference in the two prices. He also damaged his credit record. When a lender sees repossession and missing payments. He also lost his car.

Discussion Questions

1. What is repossession?
2. Do you think what happened to Dave was fair?
3. What will happen when Dave tries to get a loan for a car or [illegible]
4. Dave's delinquent accounts and his repossession will be [illegible] for seven years. Should other creditors know that Dave [illegible] this information? Is seven years a fair penalty? [illegible] records or record?

Case 6: The Debt Spiral

Eric and Jackie Shuman saved up $600 to buy a new couch. When they finally moved the couch into their living room they noticed how old the rest of the furniture looked next to it. After talking it over, they decided to buy a set of matching chairs, costing $250. They had spent all their savings, so they paid for the chairs with their Master Charge. A few days later, Jackie convinced Eric that a new rug would look great with the new furniture. They bought a new rug for $480 at Crawford's Department Store.

The next month, the bills arrived. Eric paid the rent ($300), the food bill ($150), the car and gasoline bills ($200), life and auto insurance ($20), and entertainment ($50). Between the two of them, the Shumans earned $1,100 a month, or $800 after taxes. They were left with $60 to pay for the rug, the chairs, and anything else they needed in the next month. They decided to pay the minimum monthly amount on their credit cards, or $10 on the Master Charge and $20 on the department store card. They still owed $240 for the chairs and $460 for the rug.

For the next few months, the Shumans met their payments steadily, until their car needed some maintenance, costing $160. That bill had to be paid immediately, so they skipped the payments on the furniture, the rug, the insurance, and the gas that month. They paid some bills one month, others the next month. However, they owed more and more money: as medical expenses, birthday gifts, and car repairs piled up.

A couple of months later, Eric had a minor car accident. His car was not damaged, but the car he hit would cost $675 to repair. The car's owner threatened to sue unless Eric paid for the damage. With no insurance, and over $[illegible] in debts, Jackie and Eric had no [illegible] what to do next.

[illegible] Get in Debt

Eric decided to ask his boss for an advance on pay. After hearing Eric's story, his boss said he couldn't give Eric the advance. But he suggested Eric and Jackie [illegible] credit counselor [illegible]. This organization, he explained, helps people get out of debt.

Jackie and Eric went to see Mrs. Gardner, the Consumer Credit Counselor assigned to their case. The first thing she did was to collect all of their credit cards, cut them in half, and throw them away. Next, she worked out a contract with Eric and Jackie so that they would turn their money over to her each month. She would pay off their debts with it and give them just enough money to live on. It would take some time to pay off their debts. But if they didn't accumulate any more debts, the Shumans would eventually pay off all of their bills. Mrs. Gardner arranged to pay the Shumans' creditors a smaller amount each month than they originally expected, but she would pay it more consistently than the Shumans did.

A year and a half later, most of the debts were paid. Jackie and Eric were allowed to manage their own money again. Before they left Mrs. Gardner's office for the last time, their counselor stressed four points for them to remember to avoid getting into debt again:

1. Keep good records of all financial transactions. Always pay your bills by check.
2. Maintain some money in a savings account for emergencies. At least two months' pay is advisable.
3. Keep a budget! Know how much money you have, and know what your expenses are.
4. Keep insurance to help out financially if fire, injury, death, or some other tragedy occurs.

Discussion Questions

1. How did Eric and Jackie accumulate so many debts?
2. Eric and Jackie Shuman's credit record will show the delinquent accounts and the eventual repayment of those accounts. Do you think it is fair for this information to be placed in their credit file?
3. Do you think credit records invade an individual's privacy? Recently, there have been cases of "fly-by-night" companies offering credit counseling. They take the debtor's money, never pay the creditors, and disappear. How could you make sure you were dealing with an ethical company?

VOCABULARY WORKSHEET

Place the correct word next to its definition.

DEBT	GUARANTOR	CREDIT
REPOSSESSION	INCOME	DISCRIMINATION
CREDIT RECORD	DEFAULT	CREDIT RATING

_____ 1. the act of taking something back from a buyer who had failed to make payments when due

_____ 2. an evaluation by a lender of an individual or business in terms of creditworthiness

_____ 3. treating one group of persons differently from others

_____ 4. whatever one person owes another

_____ 5. failure to pay money that is due

_____ 6. one who promises to repay the loan if another fails to make payment

_____ 7. a history of one's past performance in repaying debts

_____ 8. a system of doing business that trusts that a person will pay at a later for goods or services that he or she is using now

_____ 9. the money received by a person from wages, investments or interest on savings

Explain each of the following in the space provided:

Interest

_____

_____

Equal Credit Opportunity Act

_____

_____

Investigative report

_____

_____